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Controller Review Finds Poor Financial Controls at CDCR

SACRAMENTO – In an [audit](#) released today, State Controller John Chiang found a lack of internal control policies and procedures at the California Department of Corrections and Rehabilitation (CDCR), putting millions of public dollars at risk of fraud and misappropriation.

“My auditors found the CDCR has grossly inadequate procedures in place for collecting overpayment of salaries and travel advances made through the agency’s office revolving fund,” Chiang said. “This is the latest in a series of agency audits conducted by my staff that point to the waste and abuse of state funds due to the lack of attention to collecting overpayments. Gov. Brown and I are working together to identify the causes of these problems and to protect public funds.”

The CDCR review looked at records from July 1, 2009, through July 31, 2010. The audit found inadequate collection efforts resulted in delays in collecting millions of dollars in overpayments for employee salary and travel advances. Of the more than \$6 million in outstanding receivables related to salary and travel advances, more than \$4 million, or 65.6%, were outstanding for longer than 60 days, and \$465,000, or 7.5%, had been outstanding for more than three years.

One employee who was terminated in May 2010 received a lump sum check for \$14,950 from the office’s revolving fund to meet the timeline for paying employees separating from state service. But the CDCR did not take the steps necessary to offset the employee’s final check, resulting in the former employee receiving both a salary advance and a full, final check. Six months later, there still was no effort to recoup the overpayment of \$14,950.

In another case, an employee received a salary advance of more than \$8,000 in January 2008, plus a regular payroll check. As of November 1, 2010, almost three years later, the advance still had not been collected, even though the employee still works for CDCR.

The audit also found that serious internal control deficiencies put the agency at risk for fraud and abuse. CDCR was tardy or noncompliant in attempting to reconcile bank accounts to ensure the accuracy and completeness of recorded transactions. As of June 30, 2010, the bank reconciliation of CDCR’s major account showed \$27 million in unresolved funds on their bank balance, while CDCR’s records showed unresolved funds totaling more than \$31 million on their book balance. Without reconciling these funds, anyone who has access to the fund’s check stock could fraudulently issue checks with little chance of being detected.

In addition, although state accounting procedures require two authorized signatures for payments of more than \$15,000, the Controller's review found two separate checks exceeding that amount without dual signatures.

In another finding, the audit determined that CDCR used its revolving fund to spend more than the department's appropriation under the State Budget. While the majority of those payments appeared to be for legitimate purposes, the department has no legal authority to make such payments without an appropriation from the State Legislature. As of November 30, 2010, CDCR still had not received reimbursement for more than \$3.5 million in payments made from its revolving fund prior to June 30, 2010.

In his response, Martin Hoshino, CDCR Undersecretary for Administration and Offender Services, said the agency agrees with the findings and already has implemented 22 of the 36 recommendations made by the Controller. Hoshino said CDCR has now "prioritized the vigorous collection of outstanding debts," succeeding in decreasing the outstanding balance by \$2.2 million since November 1, 2010. "We will continue in our efforts until we have surmounted the issues identified in this audit," Hoshino said.

The Controller's auditors will revisit CDCR in 12 months to assess the agency's progress in implementing corrective actions.

Since taking office in January 2007, State Controller John Chiang's audits have identified more than \$2.59 billion in waste, abuse and misspending of taxpayer dollars.

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